MONTANA LEGISLATIVE HISTORY

Chapter 571 19 95

Bill H 90 S _____ Original bill & history X C

H. Committee on TAXATION			S. Committee on TAXATION		
Hearing Date(s)	1/10	X C	Hearing Date(s)	3/27	X C
EXEC ACTION	2/21	X C	EXEC ACTION	4/7	X C
		C			C
		C			C
Date Out		C			

Did this bill originate in an interim committee? ____Yes X No

Committee _____ Report _____

A Free Conference Committee was appointed - we have no minutes from this committee, only its report.

HB 85 INTRODUCED BY RANEY, ET AL.

ALLOW AN INDIVIDUAL INCOME TAX DEDUCTION FOR THE ACTUAL AMOUNT OF MEDICAL AND DENTAL EXPENSES, NOTWITHSTANDING THE DEDUCTION LIMITATIONS UNDER FEDERAL LAW

1/04	INTRODUCED		
1/04	FIRST READING		
1/04	REFERRED TO TAXATION		
1/05	FISCAL NOTE REQUESTED		
1/09	FISCAL NOTE RECEIVED		
1/09	FISCAL NOTE PRINTED		
1/10	HEARING		
1/14	REREFERRED TO HEALTH CARE SELECT		
1/19	HEARING		
3/04	REREFERRED TO JOINT HEALTH CARE SELECT		
3/09	HEARING		
3/14	TABLED IN COMMITTEE		
3/29	MISSED TRANSMITTAL DEADLINE FOR 71ST DAY DIED IN COMMITTEE		

HB 86 INTRODUCED BY SIMPKINS, ET AL.

REVISE LAWS RELATING TO GROSS VEHICLE WEIGHT LIMITS

1/04	INTRODUCED		
1/04	FIRST READING		
1/04	REFERRED TO HIGHWAYS & TRANSPORTATION		
1/05	FISCAL NOTE REQUESTED		
1/09	FISCAL NOTE RECEIVED		
1/09	FISCAL NOTE PRINTED		
1/11	HEARING		
1/13	HEARING		
1/20	COMMITTEE REPORT—BILL PASSED		
1/21	2ND READING PASSED	91	8
1/23	3RD READING PASSED	89	7
	TRANSMITTED TO SENATE		
1/24	FIRST READING		
1/24	REFERRED TO HIGHWAYS & TRANSPORTATION		
3/07	HEARING		
3/07	TABLED IN COMMITTEE DIED IN COMMITTEE		

HB 87 INTRODUCED BY GRINDE, ET AL.

CHANGE THE PRIMARY ELECTION DATE FOR NOMINATING PRESIDENTIAL CANDIDATES AND STATEWIDE CANDIDATES FROM JUNE TO AUGUST

1/04	INTRODUCED
1/04	FIRST READING
1/04	REFERRED TO STATE ADMINISTRATION
1/10	HEARING
2/15	TABLED IN COMMITTEE
2/23	MISSED TRANSMITTAL DEADLINE DIED IN COMMITTEE

HB 88 INTRODUCED BY R. JOHNSON

INCLUDE CAPITAL CONSTRUCTION COSTS IN THE REASONABLE COSTS OF CONFINING A PERSON IN A DETENTION CENTER

1/04	INTRODUCED
1/04	FIRST READING
1/04	REFERRED TO APPROPRIATIONS
1/05	FISCAL NOTE REQUESTED

1/16	FISCAL NOTE PRINTED		
1/23	REVISED FISCAL NOTE RECEIVED		
3/01	REVISED FISCAL NOTE PRINTED		
3/02	HEARING		
3/02	TABLED IN COMMITTEE		
3/24	MISSED TRANSMITTAL DEADLINE FOR 67TH DAY DIED IN COMMITTEE		

HB 89 INTRODUCED BY PECK

GENERALLY REVISE VITAL STATISTICS LAWS TO STANDARDIZE PROCEDURES AND TO CONFORM TO NATIONAL STANDARDS

BY REQUEST OF THE DEPARTMENT OF HEALTH AND ENVIRONMENTAL SCIENCES

1/04	INTRODUCED		
1/04	FIRST READING		
1/04	REFERRED TO HUMAN SERVICES & AGING		
1/05	FISCAL NOTE REQUESTED		
1/09	HEARING		
1/10	FISCAL NOTE RECEIVED		
1/10	FISCAL NOTE PRINTED		
2/06	TABLED IN COMMITTEE		
2/10	COMMITTEE REPORT—BILL PASSED AS AMENDED		
2/13	2ND READING PASSED AS AMENDED	78	18
2/15	3RD READING PASSED	85	13
	TRANSMITTED TO SENATE		
2/20	FIRST READING		
2/20	REFERRED TO STATE ADMINISTRATION		
3/07	HEARING		
3/15	COMMITTEE REPORT—BILL CONCURRED AS AMENDED		
3/20	2ND READING CONCURRED AS AMENDED	50	0
3/21	3RD READING CONCURRED	50	0
	RETURNED TO HOUSE WITH AMENDMENTS		
3/31	2ND READING AMENDMENTS CONCURRED	90	6
4/03	3RD READING AMENDMENTS CONCURRED	88	10
4/05	SIGNED BY SPEAKER		
4/06	SIGNED BY PRESIDENT		
4/07	TRANSMITTED TO GOVERNOR		
	RETURNED TO HOUSE WITH GOVERNOR'S PROPOSED AMENDMENTS		
4/12	2ND READING GOVERNOR'S AMENDMENTS CONCURRED	97	3
4/13	3RD READING GOVERNOR'S AMENDMENTS CONCURRED	91	6
	SENATE		
4/12	2ND READING GOVERNOR'S AMENDMENTS CONCURRED	49	0
4/13	3RD READING GOVERNOR'S AMENDMENTS CONCURRED	50	0
4/14	SIGNED BY SPEAKER		
4/18	SIGNED BY PRESIDENT		
4/18	TRANSMITTED TO GOVERNOR		
4/25	SIGNED BY GOVERNOR CHAPTER NUMBER 515 EFFECTIVE DATE: 01/01/96		

HB 90 INTRODUCED BY FELAND

EXEMPT THE FIRST 3 BARRELS A DAY OF STRIPPER WELL PRODUCTION FROM THE STATE SEVERANCE TAX IF THE AVERAGE PRICE PER

BARREL OF OIL RECEIVED DURING A CALENDAR QUARTER IS LESS THAN $30

1/04	INTRODUCED		
1/04	FIRST READING		
1/04	REFERRED TO TAXATION		
1/05	FISCAL NOTE REQUESTED		
1/09	FISCAL NOTE PRINTED		
1/10	HEARING		
1/13	REVISED FISCAL NOTE PRINTED		
3/16	COMMITTEE REPORT—BILL PASSED AS AMENDED		
3/18	2ND READING PASSED	69	29
3/20	3RD READING PASSED	66	30
	TRANSMITTED TO SENATE		
3/21	FIRST READING		
3/21	REFERRED TO TAXATION		
3/27	HEARING		
4/07	COMMITTEE REPORT—BILL CONCURRED AS AMENDED		
4/08	REVISED FISCAL NOTE PRINTED		
4/08	2ND READING CONCURRED	47	1
4/10	3RD READING CONCURRED	47	2
	RETURNED TO HOUSE WITH AMENDMENTS		
4/11	2ND READING AMENDMENTS NOT CONCURRED	73	26
4/11	FREE CONFERENCE COMMITTEE APPOINTED		
4/12	FREE CONFERENCE COMMITTEE REPORT NO. 1		
4/12	2ND READING FREE CONFERENCE COMMITTEE REPORT NO. 1 ADOPTED	71	26
4/13	3RD READING FREE CONFERENCE COMMITTEE REPORT NO. 1 ADOPTED	72	26
4/12	SENATE		
4/11	FREE CONFERENCE COMMITTEE APPOINTED		
4/12	FREE CONFERENCE COMMITTEE REPORT NO. 1		
4/12	2ND READING FREE CONFERENCE COMMITTEE REPORT NO. 1 ADOPTED	49	0
4/13	3RD READING FREE CONFERENCE COMMITTEE REPORT NO. 1 ADOPTED	43	7
4/14	SIGNED BY SPEAKER		
4/18	SIGNED BY PRESIDENT		
4/18	TRANSMITTED TO GOVERNOR		
5/01	SIGNED BY GOVERNOR CHAPTER NUMBER 571 EFFECTIVE DATE: 07/01/95		

HB 91 INTRODUCED BY M. HANSON, ET AL.

EXTEND THE TIME IN WHICH A CANDIDATE FOR A STATE DISTRICT OFFICE MUST REPORT A CONTRIBUTION OF $100 OR MORE FROM 24 HOURS TO 48 HOURS

1/05	INTRODUCED		
1/05	FIRST READING		
1/05	REFERRED TO STATE ADMINISTRATION		
1/10	HEARING		
1/11	COMMITTEE REPORT—BILL PASSED AS AMENDED		
1/13	2ND READING PASSED	54	44
1/16	TAKEN FROM 3RD READING AND PLACED BACK ON 2ND READING		
1/17	2ND READING PASSED AS AMENDED	85	14
1/18	3RD READING PASSED	84	12
	TRANSMITTED TO SENATE		
1/19	FIRST READING		

1/19	REFERRED TO STATE ADMINISTRATION		
1/24	HEARING		
1/28	COMMITTEE REPORT—BILL CONCURRED AS AMENDED		
1/30	2ND READING CONCURRED	50	0
1/31	3RD READING CONCURRED	45	3
	RETURNED TO HOUSE WITH AMENDMENTS		
3/01	2ND READING AMENDMENTS CONCURRED	64	32
3/02	3RD READING AMENDMENTS CONCURRED	74	24
3/03	SIGNED BY SPEAKER		
3/04	SIGNED BY PRESIDENT		
3/06	TRANSMITTED TO GOVERNOR		
3/07	SIGNED BY GOVERNOR CHAPTER NUMBER 86 EFFECTIVE DATE: 10/01/95		

HB 92 INTRODUCED BY HEAVY RUNNER

CLARIFY FOR PURPOSES OF THE INDIAN HIRING PREFERENCE LAW THAT A STATE AGENCY INCLUDES AN ELEMENTARY OR HIGH SCHOOL DISTRICT WITH AN INDIAN STUDENT POPULATION OF 30 PERCENT OR MORE

1/05	INTRODUCED		
1/05	FIRST READING		
1/05	REFERRED TO EDUCATION & CULTURAL RESOURCES		
1/13	HEARING		
2/16	COMMITTEE REPORT—BILL PASSED AS AMENDED		
2/18	2ND READING PASSED	54	45
2/20	3RD READING FAILED	40	58

HB 93 INTRODUCED BY MENAHAN

PROVIDE AN ALTERNATIVE SENTENCE FOR CERTAIN SEX OFFENDERS AND PROVIDE FOR A SEX OFFENDER TREATMENT PROGRAM IN DEPARTMENT OF CORRECTIONS AND HUMAN SERVICES

BY REQUEST OF THE DEPARTMENT OF CORRECTIONS AND HUMAN SERVICES

1/05	INTRODUCED
1/05	FIRST READING
1/05	REFERRED TO JUDICIARY
1/06	FISCAL NOTE REQUESTED
1/10	HEARING
1/11	FISCAL NOTE RECEIVED
1/12	FISCAL NOTE PRINTED
2/11	TABLED IN COMMITTEE
2/23	MISSED TRANSMITTAL DEADLINE DIED IN COMMITTEE

HB 94 INTRODUCED BY BRAINARD, ET AL.

EXCEPT FROM THE 10-MILE LOCATION RESTRICTION FOR A SHOOTING PRESERVE ESTABLISHED AND OPERATED EXCLUSIVELY FOR THE PRACTICE OF FALCONRY HUNTING BY THE DISABLED

1/05	INTRODUCED		
1/05	FIRST READING		
1/05	REFERRED TO FISH & GAME		
1/06	FISCAL NOTE REQUESTED		
1/10	HEARING		
1/12	FISCAL NOTE RECEIVED		
1/13	FISCAL NOTE PRINTED		
1/14	COMMITTEE REPORT—BILL PASSED AS AMENDED		
1/16	2ND READING PASSED	64	36

House BILL NO. 90

INTRODUCED BY [signature]

A BILL FOR AN ACT ENTITLED: "AN ACT EXEMPTING THE FIRST 3 BARRELS A DAY OF STRIPPER WELL PRODUCTION FROM THE STATE SEVERANCE TAX IF THE AVERAGE PRICE PER BARREL OF OIL RECEIVED DURING A CALENDAR QUARTER IS LESS THAN $30; AMENDING SECTIONS 15-36-101 AND 15-36-121, MCA; AND PROVIDING AN EFFECTIVE DATE AND AN APPLICABILITY DATE."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-36-101, MCA, is amended to read:

"**15-36-101. Definitions and rate of tax -- state severance tax -- local government severance tax -- assessment of nonworking interest owner -- exemption.** (1) ~~Every~~ Each person ~~engaging in or carrying on the business of producing~~ who produces petroleum, other mineral or crude oil, or natural gas within this state or ~~engaging in or carrying on the business of owning, controlling, managing, leasing, or operating~~ who owns, controls, manages, leases, or operates within this state any well or wells from which any ~~merchantable or~~ marketable petroleum, other mineral or crude oil, or natural gas is ~~extracted or~~ produced shall, except as provided in 15-36-121, ~~each year when engaged in or carrying on the business in this state~~ pay to the department of revenue a state severance tax for deposit in the state general fund, ~~of the state of Montana~~ plus a local government severance tax in lieu of a tax on net proceeds for replacement of property taxes formerly levied on net proceeds. Except as provided in subsection (3), the state severance tax and the local government severance tax are as follows:

(a) except as provided in 15-36-121 and in subsections (1)(b) through (1)(f) of this section, a 5% state severance tax on the gross taxable value of all the petroleum and other mineral or crude oil produced by the person, plus the local government severance tax of 8.4% on the gross taxable value, as defined in subsection (8)(a)(ii), of all the petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit; but in determining the amount of the state severance tax and local government severance tax, there must be excluded from consideration all petroleum or other crude or mineral oil produced and used by the person during the year in connection with the person's operations in prospecting for, developing, and producing the petroleum or crude or mineral oil;

(b) a 2.65% state severance tax on the gross taxable value of all natural gas produced by the person, plus the local government severance tax of 15.25% on the gross taxable value, as defined in subsection (8)(a)(ii), of all natural gas produced by the person, other than new production, from each lease or unit; but in determining the amount of the state severance tax and the local government severance tax, there must be excluded from consideration all gas produced and used by the person during the year in connection with the person's operations in prospecting for, developing, and producing the gas or petroleum or crude or mineral oil; and there must also be excluded from consideration all gas, including carbon dioxide gas, recycled or reinjected into the ground;

(c) except as provided in subsection (4)(a), a 3% state severance tax on the gross taxable value of the incremental production of petroleum and other mineral or crude oil produced from a secondary recovery project commenced or expanded after December 31, 1993, and before January 1, 2002, plus the local government severance tax of 5% on the gross taxable value, as defined in subsection (8)(a)(ii), of the incremental petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit in a secondary recovery project commenced or expanded after December 31, 1993, and before January 1, 2002. For purposes of this section, a secondary recovery project must meet each of the following requirements:

(i) The project must be certified as a secondary recovery project to the department by the board. The certification may be extended only after notice and hearing in accordance with Title 2, chapter 4.

(ii) The property to be affected by the project must be adequately delineated according to the specifications required by the board.

(iii) The project must involve the application of secondary recovery methods that can reasonably be expected to result in an increase, determined by the board to be significant in light of all the facts and circumstances, in the amount of petroleum or mineral or crude oil that may potentially be recovered. For purposes of this section, secondary recovery methods include but are not limited to:

(A) the injection of water into the producing formation for the purposes of maintaining pressure in that formation or for the purpose of increasing the flow of petroleum or mineral or crude oil from the producing formation to a producing well bore; or

(B) any other method approved by the board as a secondary recovery method.

(d) a 2.5% state severance tax on the gross taxable value of the incremental petroleum and other mineral or crude oil produced by the person, plus the local government severance tax of 5% on the gross

taxable value, as defined in subsection (8)(a)(ii), of the incremental petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit in a tertiary recovery project after July 1, 1985. For purposes of this section, a tertiary recovery project must meet each of the following requirements:

(i) The project must be approved as a tertiary recovery project by the board of oil and gas conservation. The approval may be extended only after notice and hearing in accordance with Title 2, chapter 4.

(ii) The property to be affected by the project must be adequately delineated according to the specifications required by the board.

(iii) The project must involve the application of one or more tertiary recovery methods that can reasonably be expected to result in an increase, determined by the board to be significant in light of all the facts and circumstances, in the amount of crude oil that may potentially be recovered. For purposes of this section, tertiary recovery methods include but are not limited to:

(A) miscible fluid displacement;

(B) steam drive injection;

(C) micellar/emulsion flooding;

(D) in situ combustion;

(E) polymer augmented water flooding;

(F) cyclic steam injection;

(G) alkaline or caustic flooding;

(H) carbon dioxide water flooding;

(I) immiscible carbon dioxide displacement; or

(J) any other method approved by the board as a tertiary recovery method.

(e) except as provided in subsection (4)(b), a 2% state severance tax on the gross taxable value of the incremental petroleum and other mineral or crude oil produced by the person, plus the local government severance tax of 3.3% on the gross taxable value, as defined in subsection (8)(a)(ii), of the incremental petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit in a tertiary recovery project commenced or expanded after December 31, 1993, and before January 1, 2002. The tertiary recovery project must meet the requirements of subsections (1)(d)(i) through (1)(d)(iii).

(f) a 5% local government severance tax on the gross taxable value, as defined in subsection (8)(a)(ii), of all petroleum and other mineral or crude oil produced by the person other than new production ~~produced by~~ from a stripper well, as defined in subsection (9).

(2) For purposes of this section, the following definitions apply:

(a) "Board" means the board of oil and gas conservation.

(b) "Enhanced recovery project" means the use of any process for the displacement of oil from the earth other than primary recovery and includes the use of an immiscible, miscible, chemical, thermal, or biological process.

(c) "Existing enhanced recovery project" means an enhanced recovery project that began development before January 1, 1994.

(d) "Expanded enhanced recovery project" or "expansion" means the addition of injection wells or production wells, the change of injection pattern, or other operating changes to an existing enhanced recovery project that will result in the recovery of oil that would not otherwise be recovered.

(e) "Incremental production" means:

(i) the volume of oil produced by either a well in primary recovery recompleted as a horizontally completed well or by an expanded enhanced recovery project, which volume of production is in excess of the production decline rate established under the conditions existing before:

(A) the commencement of the recompletion of a well as a horizontally completed well;

(B) expansion of the existing enhanced recovery project; or

(C) commencing a new enhanced recovery project; or

(ii) in the case of any project that had no taxable production prior to commencing the enhanced recovery project, all production of petroleum or mineral or crude oil from the enhanced recovery project.

(f) "New enhanced recovery project" means an enhanced recovery project that began development after December 31, 1993, and before January 1, 2002.

(g) "Operator" or "producer" means the person responsible for the actual physical operation of an enhanced recovery project.

(h) "Primary recovery" means the displacement of oil from the earth into the well bore by means of the natural pressure of the oil reservoir and includes artificial lift.

(i) "Production decline rate" means the projected rate of future oil production, extrapolated by a method approved by the board, that must be determined for a project area prior to commencing a new or

expanded secondary recovery project or the recompletion of a well as a horizontally completed well. The approved production decline rate must be certified in writing to the department of revenue by the board. In that certification, the board shall identify the project area and shall specify the projected rate of future oil production by calendar year and by calendar quarter within each year. The certified rate of future oil production must be used to determine the volume of incremental production that qualifies for the tax rate imposed under subsection (1)(c) or (1)(e).

(j) "Secondary recovery project" means an enhanced recovery project that is not a tertiary recovery project.

(k) "Tertiary recovery project" means an enhanced recovery project using a tertiary recovery method described in subsection (1)(d)(iii).

(3) (a) A local government severance tax is imposed on the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted marketable petroleum, other mineral or crude oil, or natural gas subject to local government severance taxes imposed under this chapter. The local government severance tax on nonworking interest owners is computed at the following rates:

(i) 12.5% on the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted marketable petroleum and other mineral or crude oil;

(ii) 15.25% on the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted or marketable natural gas.

(b) The amounts paid or apportioned in kind to nonworking interest owners are exempt from the local government severance taxes imposed under 15-36-121(2) and under subsections (1)(a) through (1)(f) of this section.

(4) (a) Incremental production from a secondary recovery project is subject to the tax rate imposed in subsection (1)(c) if the average price per barrel of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during a calendar quarter is less than $30 a barrel. If the price of oil is equal to or greater than $30 per barrel in a calendar quarter as determined in subsection (5), incremental production from a secondary recovery project is taxed as provided in subsection (1)(a) for production occurring in that quarter.

(b) Incremental production from a tertiary recovery project is subject to the tax rate imposed in subsection (1)(e) if the average price per barrel of oil as reported in the Wall Street Journal for west Texas

intermediate crude oil during a calendar quarter is less than $30 a barrel. If the price of oil is equal to or greater than $30 per barrel in a calendar quarter as determined in subsection (5), incremental production from a tertiary recovery project is taxed as provided in subsection (1)(d) for production occurring in that quarter.

(5) For the purposes of 15-36-121(3) and for the purposes of subsections (4)(a) and (4)(b) of this section, the average price per barrel must be computed by dividing the sum of the daily price for west Texas intermediate crude oil as reported in the Wall Street Journal for the calendar quarter by the number of days on which the price was reported in the quarter.

(6) ~~Nothing in this~~ This part may not be construed as requiring laborers or employees hired or employed by any person to drill any oil or natural gas well or to work in or about any oil or natural gas well or prospect or explore for or do any work for the purpose of developing any petroleum, other mineral or crude oil, or natural gas to pay the severance tax, nor may work done or the drilling of a well or wells for the purpose of prospecting or exploring for petroleum, other mineral or crude oil, or natural gas or for the purpose of developing them be considered to be the engaging in or carrying on of the business. If, in the doing of any work, in the drilling of any oil or natural gas well, or in prospecting, exploring, or development work, any merchantable or marketable petroleum, other mineral or crude oil, or natural gas in excess of the quantity required by the person for carrying on the operation is produced sufficient in quantity to justify the marketing of the petroleum, other mineral or crude oil, or natural gas, the work, drilling, prospecting, exploring, or development work is considered to be the engaging in and carrying on of the business of producing petroleum, other mineral or crude oil, or natural gas within this state within the meaning of this section.

(7) ~~Every~~ Each person required to pay the state or local government severance tax under this section shall pay the tax in full for the person's own account and for the account of each of the other owners of the gross proceeds in value or in kind of all the marketable petroleum or other mineral or crude oil or natural gas extracted and produced, including an owner or owners of working interest, royalty interest, overriding royalty interest, carried working interest, net proceeds interest, production payments, and all other interest or interests owned or carved out of the total gross proceeds in value or in kind of the extracted marketable petroleum or other mineral or crude oil or natural gas, except that any of the interests that are owned by the federal, state, county, or municipal governments are exempt from taxation under this chapter. Unless otherwise provided in a contract or lease, the pro rata share of any royalty owner or

owners will be deducted from any settlements under the lease or leases or division of proceeds orders or other contracts.

(8) For purposes of this section, the following definitions apply:

(a) (i) "Gross taxable value", for the purpose of computing the state severance tax, means the gross value of the product as determined in 15-36-103.

(ii) "Gross taxable value", for the purpose of computing the local government severance tax, means the gross value of the product as determined in 15-36-103 less the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted marketable petroleum, other mineral or crude oil, or natural gas.

(b) "Nonworking interest owner" means any interest owner who does not share in the development and operation costs of the lease or unit.

(9) For the purposes of this section, "stripper well" means a well that produces less than 10 barrels a day, determined by dividing the amount of production from a lease or unitized area for the year prior to the current calendar year by the number of producing wells in the lease or unitized area and by dividing the resulting quotient by 365."

Section 2. Section 15-36-121, MCA, is amended to read:

"**15-36-121. Exemption from state severance tax -- imposition of local government severance tax.** (1) It is the public policy of this state to promote a sufficient supply of natural gas to provide for the residents of this state, to lessen Montana's dependence on imported natural gas, and to encourage the exploration for and development and production of natural gas, petroleum, and other mineral and crude oil within the state.

(2) All the natural gas produced from any well that has produced 60,000 cubic feet or less of natural gas a day for the calendar year prior to the current year ~~shall~~ must be taxed as provided in this section. Production must be determined by dividing the amount of production from a lease or unitized area for the year prior to the current calendar year by the number of producing wells in the lease or unitized area and by dividing the resulting quotient by 365. The first 30,000 cubic feet of average daily production per well is exempt from all of the state severance tax imposed by 15-36-101. The first 30,000 cubic feet of average daily production per well is subject to a local government severance tax of 10% on the gross taxable value, as defined in 15-36-101(6)(a)(ii). Everything over 30,000 cubic feet of gas produced is taxed

at 1.59% on the gross taxable value for the state severance tax, plus a local government severance tax of 10% on the gross taxable value, as defined in 15-36-101~~(6)(a)(ii)~~(8)(a)(ii).

(3) The first 3 barrels a day of petroleum and other mineral or crude oil produced by a stripper well are exempt from the state severance tax imposed by 15-36-101, but not from the local government severance tax, if the average price per barrel of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during a calendar quarter is less than $30 a barrel. If the price of oil is equal to or greater than $30 per barrel in a calendar quarter as determined in 15-36-101(5), the first 3 barrels a day of stripper well production are taxed as provided in 15-36-101(1)(a) for production occurring in that quarter.

~~(3)~~(4) Notwithstanding the provisions of ~~subsection~~ subsections (2) and (3), all reporting requirements under the state severance tax remain in effect."

NEW SECTION. **Section 3. Effective date -- applicability.** [This act] is effective July 1, 1995, and applies to all oil produced during the quarters beginning on or after July 1, 1995.

-END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for HB0090, as introduced

DESCRIPTION OF PROPOSED LEGISLATION: An act exempting the first 3 barrels a day of stripper well production from the state severance tax if the average price per barrel of oil received during a calendar quarter is less than $30; and providing an effective date and an applicability date.

ASSUMPTIONS:

1. Taxable oil production is 14,968,000 barrels in CY95, 14,248,000 barrels in CY96, and 13,575,000 barrels in CY97 (ROC).
2. Montana oil price per barrel is $14.24 in CY95, $14.89 in CY96, and $16.27 in CY97 (ROC).
3. Total CY93 oil production was 17,320,803 barrels (MDOR).
4. Total non-taxable royalties were 4.2% of total production in CY93 (MDOR).
5. The first 3 barrels of production from stripper wells totalled 745,409 in CY93 (MDOR).
6. Non-taxable royalties were 2.4% of production from leases producing 3 barrels per day or less in CY93 (MDOR).
7. Oil severance tax revenue received within 60 days of the close of the fiscal year is accrued back to that fiscal year (MDOR).
8. All oil severance tax collections are deposited in the state general fund.

FISCAL IMPACT:

Expenditures:
There is no impact to department expenditures under the proposed legislation.

Revenues:

	FY96 Difference	FY97 Difference
Oil Severance Tax	($466,000)	($475,000)

Net Impact:

	FY96 Difference	FY97 Difference
General Fund	($466,000)	($475,000)

Dave Lewis 1-9-95
DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

Gary Feland
GARY FELAND, PRIMARY SPONSOR DATE

Fiscal Note for HB0090, as introduced

HB 90

STATE OF MONTANA - FISCAL NOTE **(REVISED)**

Fiscal Note for HB-90, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION: An act exempting the first 3 barrels a day of stripper well production from the state severance tax if the average price per barrel of oil received during a calendar quarter is less than $30; and providing an effective date and an applicability date.

ASSUMPTIONS:

1. Taxable oil production is 14,968,000 barrels in CY95, 14,248,000 barrels in CY96, and 13,575,000 barrels in CY97 (ROC).
2. Montana oil price per barrel is $14.24 in CY95, $14.89 in CY96, and $16.27 in CY97 (ROC).
3. Total CY93 oil production was 17,320,803 barrels (MDOR).
4. Total non-taxable royalties were 4.2% of total production in CY93 (MDOR).
5. The first 3 barrels of production from stripper wells totalled 1,518,507 in CY93 (MDOR).
6. Non-taxable royalties were 2.4% of production from leases producing 3 barrels per day or less in CY93 (MDOR).
7. Oil severance tax revenue received within 60 days of the close of the fiscal year is accrued back to that fiscal year (MDOR).
8. All oil severance tax collections are deposited in the state general fund.

FISCAL IMPACT:

Expenditures:
There is no impact to department expenditures under the proposed legislation.

Revenues:

	FY96 Difference	FY97 Difference
Oil Severance Tax	($973,000)	($991,000)

Net Impact:

	FY96 Difference	FY97 Difference
General Fund	($973,000)	($991,000)

David Lewis 1-12-95
DAVID LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

GARY FELAND, PRIMARY SPONSOR DATE

Fiscal Note for HB-90, as introduced.

Rev. HB 90-#2

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for HB-90, 3rd reading, as amended.

DESCRIPTION OF PROPOSED LEGISLATION: An act exempting the first 2 barrels a day of stripper well production from the state severance tax if the average price per barrel of oil received during a calendar quarter is less than $30; and providing an effective date and an applicability date.

ASSUMPTIONS:

1. Taxable oil production is 14,968,000 barrels in CY95, 14,248,000 barrels in CY96, and 13,575,000 barrels in CY97 (ROC).
2. Montana oil price per barrel is $14.24 in CY95, $14.89 in CY96, and $16.27 in CY97 (ROC).
3. Total CY93 oil production was 17,320,803 barrels (MDOR).
4. Total non-taxable royalties were 4.2% of total production in CY93 (MDOR).
5. The first 2 barrels of production from stripper wells totalled 1,202,050 in CY93 (MDOR).
6. Non-taxable royalties were 2.4% of production from leases producing 3 barrels per day or less in CY93 (MDOR).
7. Oil severance tax revenue received within 60 days of the close of the fiscal year is accrued back to that fiscal year (MDOR).
8. All oil severance tax collections are deposited in the state general fund.
9. **Senate Bill 412 is passed by the Legislature and signed into law (MDOR).**
10. Royalty owners will not receive the 2 barrel per day exemption (MDOR).
11. Royalty production accounts for 13.14% of statewide oil production (MDOR).

FISCAL IMPACT:

Expenditures:
There is no impact to department expenditures under the proposed legislation.

Revenues:

	FY96 Difference	FY97 Difference
Oil Severance Tax	($679,000)	($707,000)

Net Impact:

	FY96 Difference	FY97 Difference
General Fund	($679,000)	($707,000)

David McLewis 4-7-95

DAVID LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

GARY FELAND, PRIMARY SPONSOR DATE
Fiscal Note for HB-90, 3rd, as amended.

HB 90 #3

MINUTES

MONTANA HOUSE OF REPRESENTATIVES
54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHASE HIBBARD**, on January 10, 1995, at 8:00 A.M.

ROLL CALL

Members Present:

Rep. Chase Hibbard, Chairman (R)
Rep. Marian W. Hanson, Vice Chairman (Majority) (R)
Rep. Robert R. "Bob" Ream, Vice Chairman (Minority) (D)
Rep. Peggy Arnott (R)
Rep. John C. Bohlinger (R)
Rep. Jim Elliott (D)
Rep. Daniel C. Fuchs (R)
Rep. Hal Harper (D)
Rep. Rick Jore (R)
Rep. Judy Murdock (R)
Rep. Thomas E. Nelson (R)
Rep. Scott J. Orr (R)
Rep. Bob Raney (D)
Rep. John "Sam" Rose (R)
Rep. William M. "Bill" Ryan (D)
Rep. Roger Somerville (R)
Rep. Robert R. Story, Jr. (R)
Rep. Emily Swanson (D)
Rep. Jack Wells (R)
Rep. Kenneth Wennemar (D)

Members Excused: None

Members Absent: None

Staff Present: Lee Heiman, Legislative Council
Donna Grace, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: HB 85
HB 90

Executive Action: HB 67 - Do Pass

{Tape: 1; Side: A; Approx. Counter: ; Comments: .}

HEARING ON HB 90

Opening Statement by Sponsor:

REP. GARY FELAND, House District 88, Shelby, said the bill would exempt the first three barrels a day of stripper well production from the state severance tax if the average price per barrel of oil received during a calendar quarter is less than $30. He explained that in 1989 the legislature placed a $25 per barrel cap on stripper wells and when the price of oil exceeded the cap during the Gulf war, the exemption went off and there was no mechanism in the law to put it back when the price of oil fell. This bill puts the exemption back into the law. **REP. FELAND** pointed out that this exception is important to small operators because the costs for production are high. He noted the number of businesses that have gone out of business in Toole County because of high operating costs.

Proponents' Testimony:

Patrick Montalban, President, MSR, Inc., Cut Bank, and Vice President of the Northern Montana Oil and Gas Association, discussed the history of taxation on stripper wells in Montana and advised that the State of Montana currently taxes a one-barrel per day well twice the amount it would tax a thousand-barrel per day well. The text of Mr. Montalban's testimony, together with supporting documents, are attached as EXHIBIT 1. **Mr. Montalban** emphasized that the importance of this bill is jobs for the small independent producers and survival of the small service companies in Northern Montana. He urged the Committee to vote in favor of this bill which would lower the tax on one, two, and three-barrel a day wells from 10.75% or 12.75% to between 5% and 7%.

Doug Abelin, a former resident of the Toole-Glacier County area, spoke in favor of HB 90. The stripper well incentive is the biggest help the area had to keep the small operators in business.

Dennis Burr, Montana Taxpayers Association, said he did not believe it had ever been the intention of the Legislature to not restore the tax exemption once the price of oil per barrel fell below $30. **Mr. Burr** also said that once a well is plugged, it will never be opened again and it would be logical for the State of Montana to encourage the small wells to continue to produce. He asked for the Committee's favorable action.

Opponents' Testimony:

None.

Questions From Committee Members and Responses:

REP. ROSE asked how this affects the county tax base and how much tax delinquency this had caused. **Mr. Montalban** said he did not have the statistics but if a well closed or a company went out of business, the tax base would be lost.

REP. NELSON noted that **Mr. Montalban** had referred to horizontally drilled wells in his testimony. He asked if any had been drilled since the last session. **Mr. Montalban** replied that there have been seven in Glacier County that were all successful.

REP. BOHLINGER asked Mr. Montalban what the costs of unemployment would be for the four employees laid off by his company. Mr. Montalban said it would be approximately $8,000 per month, as these employees were at the top of the unemployment scale. **REP. BOHLINGER** then referred to the fiscal note and noted that the costs for unemployment would probably exceed the loss of revenue if the tax exemption were not imposed. **Mr. Montalban** said he did not know how many jobs it would take to recover the tax loss because many factors would be involved.

REP. SWANSON requested clarification of the taxes paid on stripper wells. **Mr. Montalban** replied that there are a total of 18 different taxes and some may be paid on one well and not on another, depending on when the well was drilled. The majority of stripper wells pay 10.7% but some pay as much as 12.7%.

REP. SWANSON asked Mr. Montalban if he had been involved in the development of legislation to be introduced later in the session which will simplify the taxation of natural resources. **Mr. Montalban** said that he had been involved; however, in the proposed legislation, the tax on stripper wells would increase unless the exemption contained in HB 90 is approved.

REP. RANEY asked why the cap was set at $30. **REP. FELAND** said that in order to show a profit and to keep a well maintained and in good repair, takes about $25. The bill refers to the price of "west Texas intermediate crude oil." **REP. FELAND** emphasized that the west Texas intermediate crude oil price is always about $4.50 more than the price being obtained in Montana. The reason this language is used is that it coincides with the language in the horizontal well legislation. **REP. RANEY** asked how these operators could stay in business since oil prices have been far below $25 in the past several years. **REP. FELAND** replied that operators are doing their own work with their own equipment and they probably have some maintenance free wells or a few wells that produce more than three barrels but less than ten.

{Tape: 1; Side: B.}

REP. ELLIOTT said that according to the fiscal note, revenues would be reduced $466,000 in FY 96, and he asked if, prior to the Gulf war when oil hit $30 a barrel, this revenue was not being

paid to the State of Montana. **Don Hoffman, Department of Revenue,** said that was true, and explained that prior to the Gulf war the way the exemption worked was that the first five barrels of production from a qualified stripper well were exempt. Prices went up to $30 and the exemption went off and there was no mechanism in the law to bring it back on when prices fell.

REP. ELLIOTT asked if this affected only the state severance tax. **REP. FELAND** said that was correct.

REP. REAM said that whenever the Committee dealt with stripper well bills, he usually supported them. He then asked Rep. Feland if he would like to have the Committee postpone action on this bill until after the proposed bill dealing with the overall taxation of oil and gas production had been dealt with. **REP. FELAND** said that would not be necessary. The simplification bill would not have any impact on this bill. He explained that in the simplification bill, royalties would be taxed so there would be more or less of a "wash" if the simplification bill goes through.

REP. REAM then asked, if it were to be a "wash", who would be paying more and who would be paying less and what would the impact be on the stripper wells. **REP. FELAND** replied that there wouldn't be any impact under the simplification bill. The state will pick up extra revenue from royalties. **REP. REAM** asked why three barrels are being exempted for all strippers rather than just exempting wells producing less than three barrels. **REP. FELAND** said that when this bill was introduced in the special session, they tried to introduce it like that but the impact produced quite a different figure. This bill was written to protect the marginal producers.

REP. REAM said he assumed that Mr. Hoffman had worked on the fiscal note for this bill and he asked if he could produce figures for the wells that are producing less than three barrels a day. **Mr. Hoffman** replied that the fiscal note would not change that much because the stripper well must qualify that it is producing less than 10 barrels per day. If you qualify three and then exempt three, the price tag would not change because you still end up exempting the first three barrels per day. If another qualification is put into law for another kind of stripper, the law would be made more complicated which is what the DOR is trying to avoid. **REP. REAM** commented that he did not believe exempting all wells producing three barrels or under would be any more complex than exempting the first three barrels from all stripper wells.

REP. FELAND explained that the reason for this is that the exemption is computed on volume. Several wells may be pumping into one tank and a stripper exemption must be filed with the DOR on the average per lease.

REP. HARPER asked if that meant that there could be only a few wells that were actually strippers but when the average is

computed, the entire field is classified as a stripper field. **REP. FELAND** replied that there would be history of the wells and the production must be calculated over a year to qualify as a stripper. **Mr. Abelin** explained that when a lease is set up, it costs $30,000 to $50,000, at a minimum, to set up the battery to process the production and it is too expensive to set this up for every well. This was discussed during the last session of the legislature but when the legislation was written, it was determined that the only fair and economic way to do it was to put it all in one battery and then compute the average. **REP. HARPER** said that this answered his question and he now understood that the bill dealt with leases rather than individual wells.

REP. HARPER asked if it would make sense for the Committee to hold all tax break bills and look at them all as a package in order to make a relative judgement as to their importance to the economy of the state and assist in the budget balancing effort. **REP. FELAND** replied that this bill isn't going to make more money or attract more people into the state -- it's a bill to try to keep people in business until the economy gets better. He said all they were asking for was what the legislature had already given and then, because of a quirk, taken away.

CHAIRMAN HIBBARD advised Rep. Harper that his suggestion would be taken into consideration.

REP. MURDOCK asked if this tax was simply a windfall tax because of the short-term spike in the price of oil. **REP. FELAND** said that was correct.

REP. RANEY said that was not entirely correct because at one time all oil production was taxed prior to the time the stripper wells were given a tax break. **Mr. Montalban** said it should be mentioned that there is still a stripper tax exemption for gas wells and it was only because of the one spike that no one expected that hit the one commodity that the stripper well exemption was eliminated. He also explained that the producers are regulated by the Board of Oil and Gas and they are obligated by law to sign a production report each month representing the production of each individual well. He said they were not asking for a break for ten-barrel a day wells. They are asking for a break for the wells producing three or less barrels a day so that they can hang onto jobs.

Closing by Sponsor:

REP. FELAND closed by thanking the Committee for a good hearing.

EXHIBIT
DATE 1/10/95
HB 90

MOUNTAIN STATES RESOURCES, INC.

A Subsidiary of MSR Exploration Ltd.
OIL & GAS EXPLORATION & PRODUCTION
OPERATING IN THE ROCKY MOUNTAINS
CBM BUILDING · BOX 250 · CUT BANK, MONTANA 59427-0250
TELEPHONE (406) 873-2235 FAX 406-873-4731

MEMORANDUM

DATE: January 6, 1995

TO: House Taxation Committee
Chairman - Chase Hibbard

FROM: Patrick M. Montalban

SUBJECT: House Bill No. 90

The following information is to inform the House Taxation Committee of the economic hardship brought to the small Oil and Gas Industry during the past years due to the drastic drop in crude oil prices, resulting in the loss of **JOBS**.

During the last quarter of 1993 and first quarter of 1994, crude oil prices dropped to between $9.00 and $9.50 a barrel. At the same time the price of the commodity dropped, the operating costs continued to rise. Enclosed please find 2 copies of letters from service companies on the hi-line, showing rig cost increases from $105.00 to $122.00 per hour.

Not only have rig costs increased but so have chemical costs to treat the wells, electrical costs to pump the wells and all materials needed to operate the wells. Along with this, pumper costs have also risen.

The most aggravating effect this drop in crude oil prices had on the industry was the loss of **JOBS**. MSR had to lay off 4 full time field employees. These individuals were not only contributing tax payers but have families of 3 to 5 children to support. As of recent date, due to a slight increase in crude oil prices, we have been able to rehire one full time employee.

Keep in mind that not only are the employees of the producing companies affected by having to discontinue production of these stripper wells, but also the gaugers approving the oil for sale, trucking services who haul the oil to market, rig crew hands servicing the wells, the chemical salesmen, service hands repairing the bottom hole pumps and the REA employees and contract electrical workers, providing electricity to keep the wells pumping.

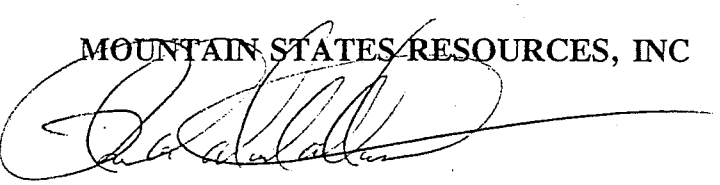
We are enclosing a summary of revenues and offsetting expenses for the month of October 1994 for one of MSR's State Leases. This will show how uneconomical it has become to operate stripper wells at this time and that a tax break from the present 12.7% to 5 to 7 percent is needed to help make the wells economical to produce.

By reducing taxes from 12.7 percent to approximately 5 to 7 percent in this Legislative Session, through a stripper exempt bill, it would save the operator 7.5 percent in revenues each month. This in turn would enable the operator to produce stripper wells longer, preventing job loss and allowing them to use some of the production revenues to maintain equipment, as well as, return other wells to production.

The wells at issue for discussion at this meeting are strictly stripper wells producing ½ to 2 barrels per day. Currently the State is taxing wells producing 1 to 2 barrels per day at a rate of 10.7% to 12.7%, which is double the 5.6% the Major Oil Companies are taxed for 150 to 1500 barrel a day wells, through the horizontal exemption implemented during the last Legislative Session. We understand this offers a drilling incentive for the Majors but feel that a tax break of this sort should be implemented to allow stripper wells to continue producing, thus prolonging the life of the wells. The longer the Industry and the Legislature work together to ensure the continued operation of stripper wells in Montana, more revenues will be generated, as well as, jobs created and maintained by the producing and service companies.

As representatives of the people for the State of Montana and concerned members of the oil and gas industry, we should work together to support the Oil and Gas Industry and the jobs it creates.

MOUNTAIN STATES RESOURCES, INC



Patrick M. Montalban
President & Chief Operating Officer
Vice President Northern Montana Oil & Gas Association

PMM/cb

EXHIBIT 1
DATE 1-10-95
HB 90

ST 4770-56 REVENUE & EXPENSE SUMMARY
OCTOBER 1994

Production: 13 wells producing 1 barrel per day	
Revenues: 360.15 bbls @ Avg Price of $13.6282	$ 4,908.21
Less:	
Royalty: 12.5%	613.52
Taxes: 12.7%	623.34
Pumper Costs: (13 wells @ $100.00 per well + $100.00 for the battery)	$ 1,400.00
Chemical Costs: (Champion Chemical) (1 Barrel scaling & corrosion inhibitor)	350.00
Well Service: (Glacier or General Well Service) (Pull well, service & repair hole in tubing - 13 wells pumping on the lease at 1 well per month workover)	1,500.00
Repair Bottom Hole Pump: (Axelson, Inc)	400.00
Contract Electrical Costs: 3-C Electric (replace fuses, electric motors)	100.00
Operating Electrical Costs: (REA Monthly costs to pump 13 wells with 135 hp electric motors)	82.00
Miscellaneous: (4 Corners, American Pipe, National) (belts, rags, fittings, etc)	100.00
Administrative Costs:	200.00
Water Disposal: (Haul water from pit to disposal well - 4 hrs/month @ $50.00/hr)	200.00
Miscellaneous Roustabout: (Oil mess cleanup, etc) (3 hrs/month @ $50.00/hr backhoe + $50.00/hr dump truck)	200.00
Total Revenues Less Expenses:	$ (860.65)

ST 4770-56 REVENUE & EXPENSE SUMMARY
DECEMBER 1993

Production: 13 wells producing 1 barrel per day

Revenues: 447.87 bbls @ Avg Price of $9.465	$ 4,239.00
Less:	
Royalty: 12.5%	529.87
Taxes: 12.7%	538.35
Pumper Costs: (13 wells @ $100.00 per well + $100.00 for the battery)	$ 1,400.00
Chemical Costs: (Champion Chemical) (1 Barrel scaling & corrosion inhibitor)	350.00
Well Service: (Glacier or General Well Service) (Pull well, service & repair hole in tubing - 13 wells pumping on the lease at 1 well per month workover)	1,500.00
Repair Bottom Hole Pump: (Axelson, Inc)	400.00
Contract Electrical Costs: 3-C Electric (replace fuses, electric motors)	100.00
Operating Electrical Costs: (REA Monthly costs to pump 13 wells with 135 hp electric motors)	100.00
Miscellaneous: (4 Corners, American Pipe, National) (belts, rags, fittings, etc)	100.00
Administrative Costs:	200.00
Water Disposal: (Haul water from pit to disposal well - 4 hrs/month @ $50.00/hr)	200.00
Miscellaneous Roustabout: (Oil mess cleanup, etc) (3 hrs/month @ $50.00/hr backhoe + $50.00/hr dump truck)	200.00
Total Revenues Less Expenses:	$ (1,379.22)

EXHIBIT 1
DATE 3-10-95
HB 90

GENERAL WELL SERVICE, INC.
P O BOX 1308
CUT BANK, MONTANA 59427
OFFICE PHONE: (406) 873-5081
FAX NUMBER: (406) 873-5083
SHOP PHONE: (406) 873-4862
DRILLING MOBILE: 873-5106
SERVICE MOBILE: 873-5172

July 21, 1993

Gentlemen:

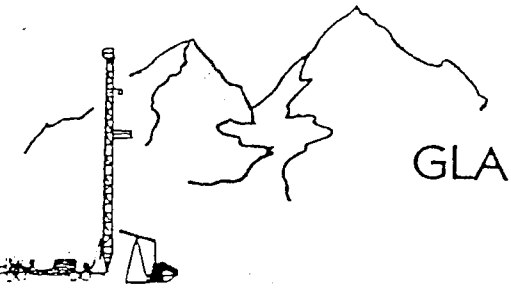
Due to the increasing costs of insurance, Workmen's Compensation and the fuel tax, General Well Service, Inc. has had to increase some of our rates.

The increased rate charges will be effective as of August 1, 1993.

We hope we may continue to be of service to you and we will make every effort to continue giving you, our customers, the very best of service and personnel.

Sincerely yours,
GENERAL WELL SERVICE, INC.

Leslie Ranck,
President



GLACIER WELL SERVICE, INC.

P.O. Box 575 • Cut Bank, Montana 59427
(406) 873-5262

July 07, 1993

Dear Customer:

Due to the rising costs, primarily Worker's Compensation rates and taxes we are forced to raise our hourly rates effective 07-21-93 to the following:

Units 1 & 2 Double Rods Single Tubing $120.00/Hr.
Units 3 & 4 Triple Rods Double Tubing $135.00/Hr.

I know how distressing this type of letter is to those whom utilize our services, however in order to maintain quality services to our customers we have no other alternative.

A full printed rate sheet will follow this letter. Thank You.

Sincerely,

Dave Withers

Dave Withers, President

EXHIBIT 1
DATE 3-10-95
HB 90

TAX STRUCTURE OF STRIPPER OIL WELLS FOR THE STATE OF MONTANA

1980 - 1986:

Net Proceed Tax in effect (Gross Revenues less Operational Costs and Allowed Deductions = Tax Owing)

1986:

Oil Bust - the bottom fell out of the price of oil to less than $10.00 a barrel. This was a "back breaker" for the industry, however, we were able to deduct operational costs, resulting in less taxes paid by stripper wells.

1980 - 1988:

The Montana Department of Revenue began auditing oil companies and disallowing certain expenses. As a result, there were many law suits and many oil companies left the State.

1989:

During the First Quarter of 1989, the Legislature enacted the Local Government Severance Tax in lieu of the Net Proceeds. The small independent oil companies supported the Bill to prevent further problems with audits. Also, the price of oil returned to the $18.00 to $20.00 level, where independents could still pay the tax but were not improving their status or allowing any investment back into the properties.

1989 Special Legislative Session:

Changed the rates on the Local Government Severance Tax and Stripper Exemption comes into effect to save small independent oil and gas companies.

August - September 1990:

Sadam Hussein invades Kuwait and the price of oil exceeds $30.00 a barrel. Therefore, due to stipulations in the Bill passed in the 1989 Legislature, the Stripper Exemption became null and void.

1993:

In the Legislative Session a Stripper Bill was introduced but "fell through the cracks"

Fourth Quarter 1993:

Oil plummets to less than $10.00 a barrel on the Sweet Grass Arch and hundreds of jobs are lost in the industry due to companies trying to keep their doors open in spite of $9.00 a barrel oil.

Present:

The price of oil has returned slightly to approximately $14.00 a barrel, however, stripper leases are still uneconomical to produce.

EXHIBIT 1
DATE 3-10-95
HB 90

CRUDE OIL PRICE COMPARISON
JANUARY - FEBRUARY 1994

JANUARY 1994	PRIDE PIPELINE TEXAS	MONTANA REFINING	MONTANA CENEX	ACTUAL PRICE RECEIVED IN MONTANA
01/03/94	13.00	11.40	11.40	9.90
01/05/94	13.75	12.15	12.15	10.65
01/10/94	13.00	11.40	11.40	9.90
01/11/94	13.25	11.65	11.65	10.15
01/12/94	12.75	11.15	11.15	9.65
01/14/94	13.00	11.65	11.40	9.90
01/17/94	13.50	11.90	11.90	10.40
01/18/94	13.25	11.65	11.65	10.15
01/19/94	13.50	11.90	11.90	10.40
01/21/94	13.25	11.65	11.65	10.15
01/24/94	13.50	11.90	11.90	10.40
01/26/94	13.75	12.15	12.15	10.65
01/31/94	13.50	11.90	11.90	10.40
FEBRUARY 1994				
02/01/94	14.25	12.65	12.65	11.15
02/02/94	14.50	12.90	12.90	11.40
02/03/94	14.25	12.65	12.65	11.15
02/04/94	14.00	12.40	12.40	10.90
02/07/94	13.50	11.90	11.90	10.40
02/09/94	13.00	11.40	11.40	9.90
02/14/94	12.50	10.90	10.90	9.40
02/16/94	12.25	10.65	10.65	9.15
02/17/94	12.50	10.90	10.90	9.40
02/23/94	12.75	11.15	11.15	9.65
02/24/94	13.00	11.40	11.40	9.90
02/28/94	12.75	11.15	11.15	9.65

THE PRIDE PIPELINE POSTINGS INCLUDE A $.50 PER BARREL BONUS.

THE ACTUAL PRICE RECEIVED FOR MONTANA BARRELS INCLUDE AN ADJUSTMENT MADE FOR API 30 DEGREE GRAVITY OF $1.50 ($.15 PER DEGREE GRAVITY DROP BELOW 40 DEGREES).

CRUDE OIL PRICE COMPARISON
NOVEMBER - DECEMBER 1994

NOVEMBER 1994	PRIDE PIPELINE TEXAS	MONTANA REFINING	MONTANA CENEX	ACTUAL PRICE RECEIVED IN MONTANA
11/01/94	17.00	16.40	16.40	14.90
11/02/94	17.25	16.65	16.65	15.15
11/07/94	16.75	16.15	16.15	14.65
11/08/94	17.00	16.40	16.40	14.90
11/09/94	16.50	15.90	15.90	14.40
11/11/94	16.25	15.65	15.65	14.15
11/14/94	15.75	15.15	15.15	13.65
11/15/94	16.00	15.40	15.40	13.90
11/16/94	15.75	15.15	15.15	13.65
11/17/94	16.00	15.40	15.40	13.90
11/18/94	15.75	15.15	15.15	13.65
11/22/94	16.00	15.65	15.40	13.90
11/23/94	16.50	15.90	15.90	14.40
DECEMBER 1994				
12/01/94	16.25	15.65	15.65	14.15
12/02/94	15.25	14.65	14.65	13.15
12/08/94	15.50	14.90	14.90	13.40
12/12/94	15.25	14.65	14.65	13.15
12/15/94	15.00	14.40	14.40	12.90
12/19/94	15.25	14.65	14.65	13.15
12/22/94	15.50	14.90	14.90	13.40
12/23/94	15.75	15.15	15.15	13.65
12/27/94	16.00	15.40	15.40	13.90
12/28/94	16.25	15.65	15.65	14.15
12/29/94	16.00	15.40	15.40	13.90

THE PRIDE PIPELINE POSTINGS INCLUDE A $.50 PER BARREL BONUS.

THE ACTUAL PRICE RECEIVED FOR MONTANA BARRELS INCLUDE AN ADJUSTMENT MADE FOR API 30 DEGREE GRAVITY OF $1.50 ($.15 PER DEGREE GRAVITY DROP BELOW 40 DEGREES).

EXHIBIT 1
DATE 3-10-95
HB 90

CRUDE OIL PRICE COMPARISON
NOVEMBER - DECEMBER 1993

NOVEMBER 1993	PRIDE PIPELINE TEXAS	MONTANA REFINING	MONTANA CENEX	ACTUAL PRICE RECEIVED IN MONTANA
11/01/93	15.75	14.15	14.15	12.65
11/02/93	15.50	13.90	13.90	12.40
11/03/93	16.00	14.40	14.40	12.90
11/04/93	15.75	14.15	14.15	12.65
11/05/93	15.50	13.90	13.90	12.40
11/08/93	15.25	13.65	13.65	12.15
11/09/93	15.00	13.40	13.40	11.90
11/11/93	15.25	13.65	13.65	12.15
11/12/93	15.00	13.40	13.40	11.90
11/15/93	15.25	13.65	13.65	12.15
11/17/93	15.50	13.90	13.90	12.40
11/18/93	15.00	13.40	13.40	11.90
11/22/93	15.50	13.90	13.90	12.40
11/23/93	15.00	13.40	13.40	11.90
11/24/93	14.75	13.15	13.15	11.65
11/29/93	13.50	12.15	11.90	10.40
11/30/93	13.75		12.15	10.65
DECEMBER 1993				
12/02/93	13.25	11.65	11.65	10.15
12/06/93	13.00	11.40	11.40	9.90
12/10/93	13.50	11.90	11.90	10.40
12/13/93	12.75	11.40	11.15	9.65
12/16/93	12.50	10.90	10.90	9.40
12/17/93	12.25	10.65	10.65	9.15
12/20/93	12.50	10.90	10.90	9.40
12/22/93	12.75	11.65	11.40	9.90
12/23/93	12.75	11.40	11.15	9.65
12/27/93	12.50	10.90	10.90	9.40
12/29/93	12.75	11.15	11.15	9.65
12/30/93	12.50	10.90	10.90	9.40

THE PRIDE PIPELINE POSTINGS INCLUDE A $.50 PER BARREL BONUS.

THE ACTUAL PRICE RECEIVED FOR MONTANA BARRELS INCLUDE AN ADJUSTMENT MADE FOR API 30 DEGREE GRAVITY OF $1.50 ($.15 PER DEGREE GRAVITY DROP BELOW 40 DEGREES).

Following are definitions of terms used in the oil and gas industry.

ASSOCIATED GAS - an accumulation of gas in the highest part of the reservoir, overlaying an accumulation of crude oil, but not in solution with the oil. Gas that is produced simultaneously with oil, and in most cases the oil cannot be produced without the gas.

POSTED FIELD PRICE - Price paid for oil by purchasers to producers specified in publicly available price bulletins or other price notices. The price will be net of all adjustments for quality (api gravity, sulpher content, etc.) and location for oil in marketable condition.

STRIPPER WELL - OIL - a well that produces an average of 10 barrels of oil or less per day. This definition was adopted from the Windfall Profits Tax Act.

STRIPPER WELL - GAS - a well that produces an average of 60,000 cubic feet of gas or less per day. Definition adopted from the Natural Gas Policy Act.

SWEET CRUDE - crude oil containing only small quantities of hydrogen sulphide gas and carbon dioxide.

SOUR CRUDE - crude oil containing significant quantities of hydrogen sulfide. This type of crude oil requires additional processing to remove the impurities.

SOUR GAS - natural gas contaminated with chemical impurities, mostly hydrogen sulphide or sulfer compounds, which cause a foul smell. These impurities must be removed before the gas can be used for commercial or domestic purposes.

OLD PRODUCTION - wells that were drilled and began producing oil and/or gas prior to July 1, 1985.

NEW PRODUCTION - wells that were drilled and began producing oil and/or gas after July 1, 1985.

NEW OIL and GAS NET PROCEEDS TAX - a tax paid quarterly to the county for "new production." The rate is 7% for oil and 12% for gas.

OIL and GAS NET PROCEEDS TAX - a tax that applied to "old production" prior to being replaced by the Local Government Severance Tax. This tax was paid directly to the county and the amount of the tax was based on the mill levy for the school district in which the production occurred.

EXHIBIT
DATE 3-10-95
HB 90

FLAT TAX - the common name used when referring to the Local Government Severance Tax (LGST). The LGST replaced the Oil and Gas Net Proceeds on "old production." The LGST is paid to the state and the money is distributed back to the counties.

WELL HEAD PRICE - the price paid for gas at the well head versus the price paid away from the well head after the gas has been gathered, compressed or processed. This price is adjusted to the British Thermal Unit content of the gas.

DELIVERED PRICE - the price paid for processed natural gas that is ready for use by the consumer.

SECONDARY RECOVERY - production of oil utilizing artifically created reservoir energies such as waterflood, gas injection, or enriched gas drive. Gas lift operations or mechanical lifting devices may be employed.

TERTIARY RECOVERY - Chemicals or other energy are injected into an oil producing formation to move the oil to a production well. The statute includes such things as steam drive injection, polymer augmented water flooding, and carbon dioxide water flooding.

WORKING INTEREST - the name given to the party or parties who have leased the rights to explore for and produce oil or gas. These owners bear the exploration, development and operating costs of an oil or gas property.

NON-WORKING INTEREST - These are typically Royalty owners. They are any interest owner who does not share in the development costs of an oil or gas property. Non-working interest owners only expense is taxes.

INDEPENDENT OPERATOR - an operator of an oil and gas lease or unit who only produces the oil or gas and is not engaged in the transportation, refining or marketing of oil or gas.

EXHIBIT 1
DATE 3-10-95
HB 90

SURVEY OF NUMBER OF WELLS DRILLED IN MONTANA

Year	Service Wells	Gas Dev Wells	Oil Dev Wells	Dev Dry Wells	Gas Exp Wells	Oil Exp Wells	Exp Dry Wells	T.A. Exp Wells	Total Wells
1980	-0-	203	241	206	12	30	260	-0-	952
1981	-0-	133	276	188	85	126	341	-0-	1149
1982	19	145	263	120	46	64	248	-0-	905
1983	10	55	160	88	16	25	156	23	533
1984	20	99	327	87	21	33	189	25	801
1985	18	84	227	90	2	16	192	11	640
1986	4	81	90	69	10	11	130	10	405
1987	21	75	86	39	9	7	100	11	348
1988	12	54	72	46	19	10	100	9	322
1989	8	115	32	29	12	8	38	0	242
1990	5	180	34	39	12	4	57	1	332
1991	6	140	46	34	17	2	32	1	278
1992	4	136	36	31	8	1	41	2	259

NORTHERN MONTANA OIL AND GAS LEGISLATIVE INFORMATION SEMINAR

SUMMARY OF TAXES PAID TO STATE OF MONTANA BY PETROLEUM INDUSTRY

	SEVERANCE TAX		RESOURCE INDEMNITY TRUST TAX		PRIVILEGE & LICENSE TAX	
	OIL	NATURAL GAS	OIL	NATURAL GAS	OIL	NATURAL GAS
1980	$10,544,555	$1,264,025	Actual figures not available		Figures not available	
1981	19,578,173	2,116,291	Actual figures not available		Figures not available	
1982	51,073,425	2,659,811	Actual figures not available		286,989	32,731
1983	45,228,535	2,649,726	$4,738,484	$537,871	302,394	35,675
1984	49,029,017	2,797,966	4,279,714	589,348	497,290	79,013
1985	48,787,984	2,945,778	4,204,763	627,504	662,175	90,736
1986	34,728,749	2,890,666	3,913,955	583,961	542,492	88,407
1987	16,143,592	2,492,465	1,859,932	538,251	539,715	145,605
1988	16,484,059	1,491,523	2,033,646	484,357	778,719	148,492
1989	13,234,516	1,724,735	1,627,445	539,442	617,133	163,836
1990	14,510,149	1,057,277	1,795,586	453,052	708,886	165,162
1991	16,854,957	1,095,804	1,770,135	394,470	694,420	154,254
1992	15,040,131	1,152,900	1,616,869	385,364	616,285	168,438
1993	12,281,220	1,284,841	1,232,451	472,912	501,934	186,456

SEVERANCE TAX - 5% of the gross value of oil and 2.65% of natural gas. This revenue goes to the state general fund. (State Tax)

RESOURCES INDEMNITY TRUST TAX - is a .5% of gross value of all minerals produced. These taxes are placed in a trust fund to "indemnify the state against damage to the environment from the extraction of non-renewable natural resources." (State Tax)

PRIVILEGE AND LICENSE TAX - The Board of Oil and Gas Conservation levies this tax to pay for its own administrative costs. The tax is .2% of all gross revenue. (State Tax)

LOCAL PROPERTY TAXES - The local mill levies are applied to all field equipment and plants. These taxes are applies to hospitals, education, university systems, etc.

All royalties from production that are paid to individuals and business are taxed as Montana income. The State receives significant amounts of rentals and royalties from leasing and wells on state lands.

Information from the Montana Department of Revenue and Glacier County Assessor.

K&E 10 T INCH INCH
KEUFFEL & ESSER CO. MADE IN U.S.A.

SUMMARY OF NUMBER OF WELLS DRILLED IN MONTANA

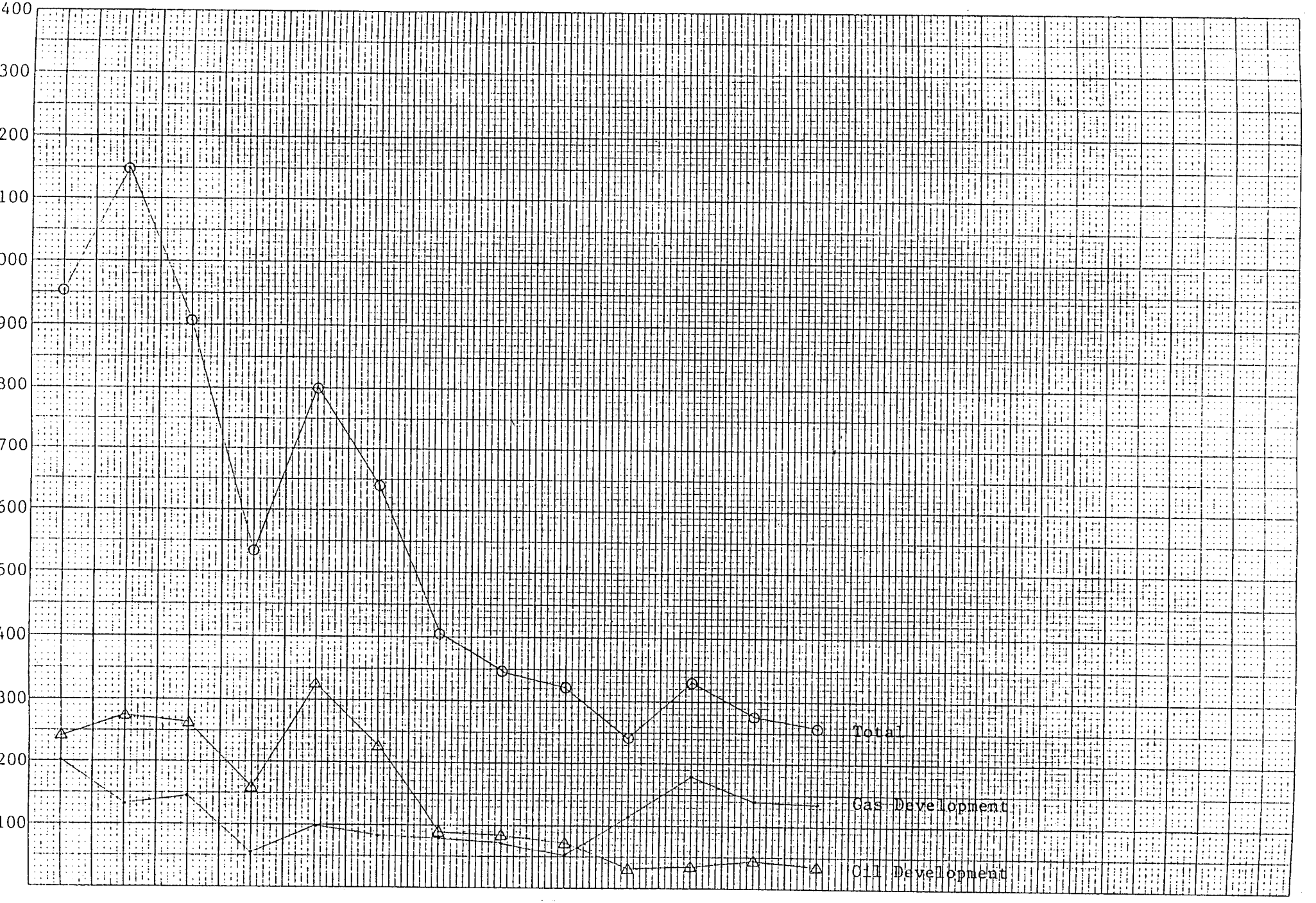


EXHIBIT 1
DATE 3-10-95
HB 90

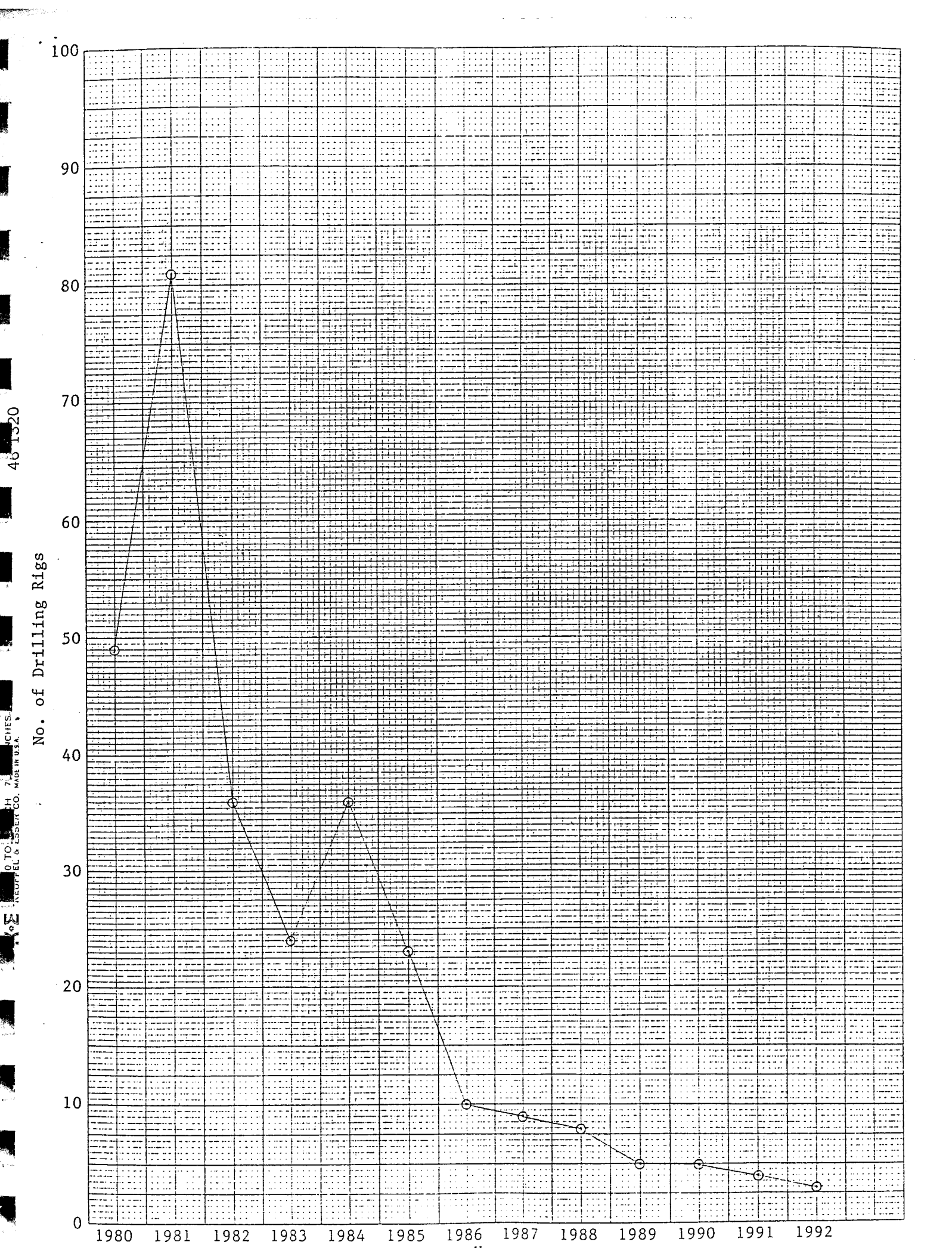
NUMBER OF DRILLING RIGS OPERATING IN MONTANA
IN THE LAST 10 YEARS

YEAR	NO. OF RIGS OPERATING
1980	49
1981	81
1982	36
1983	24
1984	36
1985	23
1986	10
1987	9
1988	8
1989	5
1990	5
1991	4
1992	3

One drilling rig employs 13 people for the operations of the rig. The annual payroll LOST per rig is $309,244.00. Each well drilled requires the services of an additional 30 people. Such as geologists, attorneys, landpersons, water haulers, cementers, logging personnel, excavators, surveyors, fuel haulers, mud companies, pipe companies, engineers and many others.

EXAMPLE: Comanche Drilling Company, Cut Bank, Montana, annual payroll for 1981 was $1,662,347.97 and for year 1990 the annual payroll was $356,579.50. These figures DO NOT include any partners, directors or owners salary for either of the above years.

Information from Montana Oil and Gas Journal and Elaine Mitchell.


No. of Drilling Rigs
100
90
80
70
60
50
40
30
20
10
0
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
1991
1992

DATE 1-10-95
HB 90

NORTHERN MONTNA OIL AND GAS LEGISLATIVE INFORMATION SEMINAR

ECONOMIC IMPACT IN TOOLE AND GLACIER COUNTIES

TYPE OF BUSINESS	NO. OUT OF BUSINESS	NO. CUT BACK OR MOVED	EST. JOBS LOST
Retail Stores	7		56
Oil and Gas Companies	11	13	87
Service and Support Companies	17	13	181
Professional	32	9	79

This is a partial listing of businesses that have moved, gone out of business or cut back during the past decade.

TOOLE AND GLACIER COUNTY CENSUS

	1980	1990
Toole County	5504	5046
Glacier County	10628	12065*

*This increase was due to Federal Government Activities.

History: En. Sec. 1, Ch. 14, L. 1983.

15-36-114. Credit for overpayment -- interest on overpayment. (1) If the department of revenue determines that the amount of tax, penalty, or interest due for any year is less than the amount paid, the amount of the overpayment shall be credited against any tax, penalty, or interest then due from the taxpayer and the balance refunded to the taxpayer or its successor through reorganization, merger, or consolidation or to its shareholders upon dissolution.

(2) Except as provided in subsection (3), interest shall be allowed on overpayments at the same rate as is charged on deficiency assessments provided in 15-36-113 due from the due date of the return or from the date of overpayment (whichever date is later) to the date the department approves refunding or crediting of the overpayment.

(3) (a) Interest shall not accrue during any period the processing of a claim for refund is delayed more than 30 days by reason of failure of the taxpayer to furnish information requested by the department for the purpose of verifying the amount of the overpayment.

(b) No interest shall be allowed:

(i) if the overpayment is refunded within 6 months from the date the return is due or from the date the return is filed, whichever is later; or

(ii) if the amount of interest is less than $1.

(c) A payment not made incident to a bona fide and orderly discharge of an actual tax liability or one reasonably assumed to be imposed by this law shall not be considered an overpayment with respect to which interest is allowable.

History: En. Sec. 2, Ch. 14, L. 1983.

~~15-36-115~~ through 15-36-120 reserved.

15-36-121. Exemption from severance tax. (1) It is the public policy of this state to promote a sufficient supply of natural gas to provide for the residents of this state, to lessen Montana's dependence on imported natural gas, and to encourage the exploration for and development and production of natural gas, petroleum, and other mineral and crude oil within the state.

(2) All new production, as defined in 15-23-601, from a well during the 24 months immediately following the date of notification to the department of revenue that an oil well is flowing or being pumped or that a gas well has been connected to a gathering or distribution system is exempt from all of the severance tax imposed by 15-36-101, provided the notification was made after March 31, 1987, and before July 1, 1991.

(3) All the natural gas produced from any well that has produced 60,000 cubic feet or less of natural gas a day for the calendar year prior to the current year shall be taxed as provided in this section. Production must be determined by dividing the amount of production from a lease or unitized area for the year prior to the current calendar year by the number of producing wells in the lease or unitized area and by dividing the resulting quotient by 365. The first 30,000 cubic feet of average daily production per well is exempt from all of the severance tax imposed by 15-36-101. Everything over 30,000 cubic feet of gas produced is taxed at 1.59%.

(4) The first 5 barrels of average daily production from a stripper well are exempt from all of the severance tax imposed by 15-36-101.

(5) For the purposes of this section, "stripper well" means a well that produces less than 10 barrels per day, determined by dividing the amount of

MINUTES

MONTANA HOUSE OF REPRESENTATIVES
54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN CHASE HIBBARD**, on February 21, 1995, at 8:00 a.m.

ROLL CALL

Members Present:

Rep. Chase Hibbard, Chairman (R)
Rep. Marian W. Hanson, Vice Chairman (Majority) (R)
Rep. Robert R. "Bob" Ream, Vice Chairman (Minority) (D)
Rep. Peggy Arnott (R)
Rep. John C. Bohlinger (R)
Rep. Jim Elliott (D)
Rep. Hal Harper (D)
Rep. Rick Jore (R)
Rep. Judy Murdock (R)
Rep. Thomas E. Nelson (R)
Rep. Scott J. Orr (R)
Rep. Bob Raney (D)
Rep. John "Sam" Rose (R)
Rep. William M. "Bill" Ryan (D)
Rep. Roger Somerville (R)
Rep. Robert R. Story, Jr. (R)
Rep. Emily Swanson (D)
Rep. Jack Wells (R)
Rep. Kenneth Wennemar (D)

Members Excused: Rep. Daniel C. Fuchs (R)

Members Absent: None.

Staff Present: Lee Heiman, Legislative Council
Donna Grace, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:

Hearing: HB 418
HB 524

Executive Action: HB 90 - Do Pass as Amended

structure in Montana is not fair and Western Montana, in particular, is seeing huge tax increases. Montana has 400 incorporated towns and only eleven had populations in excess of 5,000; however, most of them would be excluded because tourism would not be the primary or secondary source of economic well-being. She emphasized that the law is already in place and there is total local control because the citizens can vote for or against the tax. Whitefish really needs the help because the municipal tax base is not large enough to support its infrastructure needs which have been impacted by tourism. She noted that on weekends the law enforcement agency must deal with approximately 30,000 people. She asked the Committee to seriously consider a do pass action on the bill.

{Tape: 4; Side: A.}

EXECUTIVE ACTION ON HB 90

Motion:

REP. ELLIOTT MOVED THAT HB 90 DO PASS.

Motion/Vote:

REP. ELLIOTT MOVED THAT THE CONTINGENT VOIDNESS AMENDMENT TO HB 90 DO PASS. The motion passed unanimously.

Discussion:

Mr. Heiman said it would be necessary to add coordination language to reflect that whatever action is taken on HB 90 will coordinate with HB 412, the general revision of the oil and gas tax.

Motion/Vote:

REP. REAM MOVED THAT THE COORDINATION AMENDMENT BE ADOPTED. The motion passed unanimously.

Motion:

REP. ELLIOTT MOVED THAT HB 90 AS AMENDED DO PASS.

Discussion:

REP. RANEY said he did not agree with the figures -- three barrels and $30 -- in the bill. He said the testimony given indicated that the problem was with the operators producing one and a half to two barrels because at three barrels there was some profit.

REP. HANSON said she was under the impression that the bill would put the operators back to where they were before the gulf war.

REP. ELLIOTT said that was partially correct except that before the gulf war the first five barrels were exempt from the severance tax.

Vote:

On a voice vote, the motion passed 17 - 2.

HOUSE OF REPRESENTATIVES

Taxation

ROLL CALL DATE 2/21/95

NAME	PRESENT	ABSENT	EXCUSED
Rep. Chase Hibbard, Chairman	✓		
Rep. Marian Hanson, Vice Chairman, Majority	✓		
Rep. Bob Ream, Vice Chairman, Minority	✓		
Rep. Peggy Arnott	✓		
Rep. John Bohlinger	✓		
Rep. Jim Elliott	✓		
Rep. Daniel Fuchs		✓	
Rep. Hal Harper	✓		
Rep. Rick Jore	✓		
Rep. Judy Rice Murdock	✓		
Rep. Tom Nelson	✓		
Rep. Scott Orr	✓		
Rep. Bob Raney	✓		
Rep. Sam Rose	✓		
Rep. Bill Ryan	✓		
Rep. Roger Somerville	✓		
Rep. Robert Story	✓		
Rep. Emily Swanson	✓		
Rep. Jack Wells	✓		
Rep. Ken Wennemar	✓		

HOUSE OF REPRESENTATIVES

ROLL CALL VOTE

DATE 2/21/95 **BILL NO.** HB 90 **NUMBER** ____

MOTION: Rep Elliott moved HB 90 DO PASS AS AMENDED.

NAME	YES	NO
Vice Chairman Marian Hanson	✓	
Vice Hairman Bob Ream	✓	
Rep. Peggy Arnott	✓	
Rep. John Bohlinger	✓	
Rep. Jim Elliott	✓	
Rep. Daniel Fuchs		
Rep. Hal Harper		✓
Rep. Rick Jore	✓	
Rep. Judy Rice Murdock	✓	
Rep. Tom Nelson	✓	
Rep. Scott Orr	✓	
Rep. Bob Raney		✓
Rep. Sam Rose	✓	
Rep. Bill Ryan	✓	
Rep. Roger Somerville	✓	
Rep. Robert Story	✓	
Rep. Emily Swanson	✓	
Rep. Jack Wells	✓	
Rep. Ken Wennemar	✓	
Chairman Chase Hibbard	✓	

17 2

Amendments to House Bill No. 90
First Reading Copy

For the Committee on Taxation

Prepared by Lee Heiman
February 21, 1995

1. Title, line 7.
Following: the first "DATE"
Strike: "AND"
Insert: ","
Following: "APPLICABILITY DATE"
Insert: ", AND A CONTINGENT VOIDNESS PROVISION"

2. Page 8, line 11.
Insert: "NEW SECTION. **Section 3. Coordination instruction.** If Senate Bill No. 412 is passed and approved, then Senate Bill No. 412 is amended as provided in subsections (1) and (2) of this section and the distribution of revenue must be modified as provided in subsection (3) of this section. If necessary, the code commissioner shall correct all erroneous internal references within Senate Bill No. 412 caused by this section.

(1) The definition section, [section 3], of Senate Bill No. 412, is amended by adding the following definition, in alphabetical order, and renumbering subsequent subsections:

"(20) "Stripper exemption" means the first 3 barrels a day for petroleum and other mineral or crude oil produced by a stripper well if the average price per barrel of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during a calendar quarter is less than $30 a barrel. If the price of oil is equal to or greater than $30 per barrel in a calendar quarter, there is no stripper exemption in that quarter. The average price per barrel is computed by dividing the sum of the daily price for west Texas intermediate crude oil as reported in the Wall Street Journal for the calendar quarter by the number of days on which the price was reported in the quarter."

(2)(a) The section imposing tax rates, [section 4], of Senate Bill No. 412, is amended by amending subsection (4)(b) as follows:

Following: "(b) stripper oil production"
Insert: "(i)"
Following: the row entitled "pre-1985 and post-1985 wells"
Insert: "(ii) stripper exemption production [a%] [b%]"

(b) The rate "a%" is 5 percentage points less than the rate for stripper oil production working interest pre-1985 and post-1985, including all changes to that rate resulting from bills other than [this act]. The rate "b%" is the same rate as stripper oil production nonworking interest pre-1985 and post-1985, including all changes to that rate resulting from bills other than [this act].

(3) The department of revenue shall, by rule, change the formula under [section 18] of Senate Bill No. 412 for distribution of taxes collected under [section 4] of Senate Bill No. 412. In recalculating distribution rates for the revenue

raised by Senate Bill No. 412, the department of revenue shall determine the revised rate according to a formula that presumes that the reduction in the tax rate for a working interest between subsections (4)(b)(i) and (4)(b)(ii) of [section 4] of Senate Bill No. 412 is to be borne by the state and not local governments.

NEW SECTION. **Section 4. Contingent voidness.** In order to maintain a balanced budget, because [this act] reduces revenue, it may not be transmitted to the governor unless a corresponding identified reduction in spending is contained in House Bill No. 2. If a corresponding identified reduction in spending is not contained in House Bill No. 2, [this act] is void."

Renumber: subsequent sections

MINUTES

MONTANA SENATE
54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on March 27, 1995, at 8:00 a.m.

ROLL CALL

Members Present:
Sen. Gerry Devlin, Chairman (R)
Sen. Mike Foster, Vice Chairman (R)
Sen. Mack Cole (R)
Sen. Delwyn Gage (R)
Sen. Lorents Grosfield (R)
Sen. John G. Harp (R)
Sen. Dorothy Eck (D)
Sen. Barry "Spook" Stang (D)
Sen. Fred R. Van Valkenburg (D)

Members Excused: None

Members Absent: None

Staff Present: Jeff Martin, Legislative Council
Renée Podell, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Hearing: HB 90, HB 209, HB 293
Executive Action: None

HEARING ON HB 209

Opening Statement by Sponsor:

REP. JOHN COBB, HD 50, Augusta, affirmed this bill provides a minimum standard deduction. He stated standard deductions are used primarily by low and moderate income taxpayers when the deductible expenses aren't too large. He explained Montana standard deduction is set by percentage of income and the biggest problems occur when the state lacks a minimum standard of deduction amount. **REP. COBB** said this bill establishes a minimum standard deduction which will take about 10,000 households off the tax rolls that are mostly below the poverty line and pay very small amounts of taxes.

Proponents' Testimony:

None

Opponents' Testimony:

None

Informational Testimony:

None

Questions From Committee Members and Responses:

None

Closing by Sponsor:

REP. COBB closed with no further comment.

HEARING ON HB 90

Opening Statement by Sponsor:

REP. GARY FELAND, HD 88, Shelby, remarked HB 90 is legislation exempting the first three barrels of oil a day from the state severance tax. He explained this bill reenacts the exemption which was lost due to the Desert Storm conflict when the price of oil went over $25.00 a barrel.

Proponents' Testimony:

Patrick M. Montalben, President of MSR, and Vice President of the Northern Montana Oil and Gas Association, submitted written testimony. **EXHIBIT 1.**

Stuart Howell, Cavalier Petroleum Inc., stated costs are a major portion of the stripper industry and the reinstatement of this exemption would allow about a $3,000.00 a month savings for his company.

Curt Dahlgaard, Somont Oil Company, went on record in support of HB 90.

Patty O'Reilly, working for three small oil companies from out of state, commented she figured out the economics of this bill and the savings for one month on this bill would give them enough money to rework one well a month and put it back on stream. She urged passage.

Opponents' Testimony:

None

Informational Testimony:

None

Questions From Committee Members and Responses:

SEN. MIKE FOSTER asked **Mr. Montalben** what happened to production after the Gulf War. **Mr. Montalben** stated production has declined in the State of Montana because of the price of oil and because it has to get to a certain level before the companies can drill more wells. He acknowledged their thrust with this bill is more jobs.

SEN. MACK COLE asked **Ms. O'Reilly** about bringing wells back into production questioning if this would have a major effect. **Ms. O'Reilly** responded there are 190 wells in the field that have been closed off. She stated the goal would be to put one or two wells into production.

SEN. LORENTS GROSFIELD asked **Mr. Hoffman** what percentage of wells are under three barrels a day. **Mr. Hoffman** said about 14% of their production is represented by stripper production. **SEN. GROSFIELD** asked **Mr. Hoffman** if the fiscal note reflects any of the increased production and taxes. **Mr. Hoffman** stated the fiscal note is based upon current information and the number of strippers on record at this point of time.

SEN. DELWYN GAGE asked **Ms. O'Reilly** to explain the difference between wells on the Blackfeet Reservation and wells off the reservation in regard to taxation. **Ms. O'Reilly** said 13% more taxes are paid on the wells located on a reservation on top of what they pay to the tribe.

Closing by Sponsor:

SEN. FELAND urged passage of this bill.

HEARING ON HB 293

Opening Statement by Sponsor:

REP. ROBERT "BOB" REAM, HD 69, Missoula County, remarked HB 293 is at the request of the Department of Revenue through the Revenue Oversight Committee. He stated it is positive in terms of revenues. **REP. REAM** explained 43 states currently have this mechanism and in 28 states it is mandatory. He stated this bill is strictly optional for those employers who take in $1200.00 per year. He said for those who have withholding of less than $1200.00 per year they can opt into it. He attested the bill sets some threshold limits and it provides a mechanism to transfer money electronically.

MONTANA SENATE
1995 LEGISLATURE
TAXATION COMMITTEE

ROLL CALL DATE March 27, 1995

NAME	PRESENT	ABSENT	EXCUSED
MACK COLE	✓		
DELWYN GAGE	✓		
LORENTS GROSFIELD	✓		
JOHN HARP	✓		
DOROTHY ECK	✓		
BARRY "SPOOK" STANG	✓		
FRED VAN VALKENBURG	✓		
MIKE FOSTER, VICE CHAIRMAN	✓		
GERRY DEVLIN, CHAIRMAN	✓		

Present Late 9:05 am

SEN:1995
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CS-09

SENATE TAXATION
DATE March 27, 1995
EXHIBIT NO. 1
BILL NO. HB 90

MOUNTAIN STATES RESOURCES, INC.
A Subsidiary of MSR Exploration Ltd.
OIL & GAS EXPLORATION & PRODUCTION
OPERATING IN THE ROCKY MOUNTAINS
CBM BUILDING · BOX 250 · CUT BANK, MONTANA 59427-0250
TELEPHONE (406) 873-2235 FAX 406-873-4731

MEMORANDUM

DATE: March 27, 1995

TO: Senate Taxation Committee
Chairman - Gerry Devlin

FROM: Patrick M. Montalban

SUBJECT: House Bill No. 90

The following information is to inform the House Taxation Committee of the economic hardship brought to the small Oil and Gas Industry during the past years due to the drastic drop in crude oil prices, resulting in the loss of **JOBS**.

During the last quarter of 1993 and first quarter of 1994, crude oil prices dropped to between $9.00 and $9.50 a barrel. At the same time the price of the commodity dropped, the operating costs continued to rise. Enclosed please find 2 copies of letters from service companies on the hi-line, showing rig cost increases from $105.00 to $122.00 per hour.

Not only have rig costs increased but so have chemical costs to treat the wells, electrical costs to pump the wells and all materials needed to operate the wells. Along with this, pumper costs have also risen.

The most aggravating effect this drop in crude oil prices had on the industry was the loss of **JOBS**. MSR had to lay off 4 full time field employees. These individuals were not only contributing tax payers but have families of 3 to 5 children to support. As of recent date, due to a slight increase in crude oil prices, we have been able to rehire one full time employee.

Keep in mind that not only are the employees of the producing companies affected by having to discontinue production of these stripper wells, but also the gaugers approving the oil for sale, trucking services who haul the oil to market, rig crew hands servicing the wells, the chemical salesmen, service hands repairing the bottom hole pumps and the REA employees and contract electrical workers, providing electricity to keep the wells pumping.

We are enclosing month of October 1994 for one of l it has become to operate stripper nt 12.7% to 5 to 7 percent is neede

The original of this document is stored at the Historical Society at 225 North Roberts Street, Helena, MT 59620-1201. The phone number is 444-2694.

DATE March 27 1995

SENATE COMMITTEE ON TAXATION

BILLS BEING HEARD TODAY: HB 90 Rep. Feland
HB 209 Rep. Cobb HB 293 Rep. Ream

< ■ > PLEASE PRINT < ■ >

Name	Representing	Bill No.	Check One: Support	Check One: Oppose
STUART Powell	Cavalier Petroleum Inc.	HB90	✓	
Chas Maharg	DOR	HB293	✓	
Curt Dahlgaard	Somont Oil Co	HB 90	✓	
Mary L. Craig	M.L.C.	HB293		
Pat O'Reilly	Self	HB90	✓	
Patrick M. Montalbano	MSR Comm Co.	HB 90		

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY

MINUTES

MONTANA SENATE
54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on April 7, 1995, at 8:00 a.m.

ROLL CALL

Members Present:
Sen. Gerry Devlin, Chairman (R)
Sen. Mike Foster, Vice Chairman (R)
Sen. Mack Cole (R)
Sen. Delwyn Gage (R)
Sen. Lorents Grosfield (R)
Sen. John G. Harp (R)
Sen. Dorothy Eck (D)
Sen. Barry "Spook" Stang (D)
Sen. Fred R. Van Valkenburg (D)

Members Excused: None

Members Absent: None

Staff Present: Jeff Martin, Legislative Council
Renée Podell, Committee Secretary

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Committee Business Summary:
Hearing:
Executive Action: HB 587, HB 90, HB 363, HB 497, HB 346 (discussion)

EXECUTIVE ACTION ON HB 587

Motion/Vote: **SEN. BARRY "SPOOK" STANG MOVED AMENDMENTS TO HB 587** (hb058701.ajm). **MOTION CARRIED UNANIMOUSLY.**

Discussion: None

Motion/Vote: **SEN. STANG MOVED HB 587 BE CONCURRED IN AS AMENDED. MOTION CARRIED UNANIMOUSLY.**

EXECUTIVE ACTION ON HB 90

Motion: **SEN. DELWYN GAGE MOVED AMENDMENTS TO HB 90** (hb009002.ajm).

Discussion: **SEN. FRED VAN VALKENBURG** asked **REP. FELAND** if he had any objections to the amendments. **REP. FELAND** agreed with the amendments.

Vote: **MOTION CARRIED UNANIMOUSLY.**

Motion/Vote: **SEN. JOHN HARP MOVED HB 90 BE CONCURRED IN AS AMENDED. MOTION CARRIED UNANIMOUSLY.**

Discussion: **SEN. HARP** asked for a new fiscal note.

EXECUTIVE ACTION ON HB 363

Discussion: **SEN. MIKE FOSTER** stated there are two issues to deal with in this bill, the truckers and the spike in fees. He said it was clear in the hearing the department was wrong in the way they excluded the trucking industry from participating in the discussions in preparation of this bill. He declared if this bill goes down he doesn't want the DOR monkeying with depreciation rates for the trucking industry. **SEN. FOSTER** said the current system isn't the best in the world, however, we can live with it two more years. He stated people who are affected need to get involved and make a proposal which is more well rounded. He said the fee spike in this bill is a problem. He stressed this is a issue the Revenue Oversight Committee should review. He suggested both issues should be addressed in the next Legislative Session.

CHAIRMAN DEVLIN said he checked with the representative from the Automobile Association and a few trucking representatives and was told no one contacted them about being involved in any of the discussions.

SEN. DOROTHY ECK agreed this issue needs more study. She stated under this plan the passenger cars were paying more and if changes are proposed there needs to be something worked out in order to be fair to everybody.

SEN. GAGE commented everyone would be better served if this was put into statute with an 1/1/98 effective date to guarantee the DOR will get to work and bring something in next session.

SEN. VAN VALKENBURG insisted he is opposed to a delayed effective date on this bill. He said the bill isn't fine tuned well enough to be put into law.

Motion/Vote: **SEN. FOSTER MOVED TO TABLE HB 363. MOTION CARRIED 7 - 2 WITH SEN. STANG AND SEN. GAGE VOTING IN OPPOSITION TO THE MOTION.**

EXECUTIVE ACTION ON HB 497

Motion: **SEN. HARP MOVED AMENDMENTS TO HB 497** (hb049703.agp).

MONTANA SENATE
1995 LEGISLATURE
TAXATION COMMITTEE

ROLL CALL DATE April 7, 1995

NAME	PRESENT	ABSENT	EXCUSED
MACK COLE	✓		
DELWYN GAGE	✓		
LORENTS GROSFIELD	✓		
JOHN HARP	✓		
DOROTHY ECK	✓		
BARRY "SPOOK" STANG	✓		
FRED VAN VALKENBURG	✓		
MIKE FOSTER, VICE CHAIRMAN	✓		
GERRY DEVLIN, CHAIRMAN	✓		

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SENATE STANDING COMMITTEE REPORT

MR. PRESIDENT:
We, your committee on Taxation having had under consideration HB 90 (third reading copy -- blue), respectfully report that HB 90 be amended as follows and as so amended be concurred in.

Signed: _____
Senator Gerry Devlin, Chair

That such amendments read:

1. Title, line 4.
Strike: "3"
Insert: "2"

2. Title, line 6.
Following: "$30;"
Insert: "EXCLUDING NONWORKING INTEREST OWNERS FROM THE STRIPPER WELL EXEMPTION;"

3. Page 8, line 4.
Following: "(3)"
Insert: "(a)"
Strike: "The"
Insert: "Except as provided in subsection (3)(b), the"
Strike: "3"
Insert: "2"

4. Page 8, lines 8 and 21.
Strike: "3"
Insert: "2"

5. Page 8.
Following: line 9
Insert: "(b) The exemption allowed under subsection (3)(a) does not apply to the gross value paid in cash or apportioned in kind to a nonworking interest owner."

6. Page 9, lines 2 and 3.
Strike: "FOLLOWING" on line 2 through "(I)"" on page 3

7. Page 9, line 4.
Strike: "THE" through "AND"
Insert: ""(II)"

8. Page 9, line 5.
Strike: "(II)"
Insert: "(iii)"

Amd. Coord.
Sec. of Senate

Senator Carrying Bill

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Strike: "[A%] [B%]"

9. Page 9.
Following: line 5
Insert: "(A) pre-1985 wells [a%] [b%]
(B) post-1985 wells [a%] [c%]"

10. Page 9, line 9.
Strike: "AND POST-1985"

11. Page 9, line 10.
Following: "ACT]."
Insert: "The rate "c%" is the same rate as stripper oil production nonworking interest post-1985, including all changes to that rate resulting from bills other than [this act]."

12. Page 9, line 16.
Strike: "(4)(B)(I)"
Insert: "(4)(b)(iii)(A)"
Strike: "(4)(B)(II)"
Insert: "(4)(b)(iii)(B)"

-END-

FREE CONFERENCE COMMITTEE

on House Bill 90
Report No. 1, April 11, 1995

Mr. Speaker and Mr. President:

We, your Conference Committee on **House Bill 90** met and considered House Bill 90 and recommend that **House Bill 90** (reference copy -- salmon) be amended as follows:

1. Title, line 4.
Strike: "2"
Insert: "3"

2. Page 8, lines 5, 10, 25.
Strike: "2"
Insert: "3"

We recommend that the amendments considered above to House Bill 90 be acceded to by the senate.

And this Conference Committee report be adopted.

For the House:
Feland
Chair
Rose
Peck

For the Senate:
Foster
Chair
Cole
Nelson

ADOPT

REJECT

HB 90
FCCR#1
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